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SUBJECT: PHILIPPINE SEAWEED SECTOR PACES CHALLENGES

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¶1. (SBU) Summary. For four decades, U.S Government-backed seaweed farming programs have promoted peace, security and economic development in some of the Philippines' poorest and least stable provinces. In conflict-affected Mindanao, the United States Agency for International Development (USAID) helped cement a 1996 peace agreement with Muslim rebels by training demobilized combatants in productive enterprises - including seaweed farming - and laying the foundation for a broader peacetime economy. By nurturing all aspects of seaweed production, from farming fundamentals through processing technology to marketing enhancements, the U.S. has enabled the development of one of the world's largest seaweed industries, currently employing 40,000 families. However, adverse climatic conditions and competition from other developing nations have resulted in a significant drop in production since its peak in the mid 1990s. USAID is addressing these challenges by strengthening local biotechnology capacity, drawing up industry standards, and promoting high-value aquaculture that will improve farmers' productivity and profitability. End Summary.
Seaweed is Everywhere

¶2. (U) The consistent taste and texture that global consumers have come to expect in everything from Twinkies to toothpaste is made possible by additives such as carrageenan, a carbohydrate extracted from seaweed. The Philippines is currently a world leader in the production of dried seaweed and carrageenan, with exports in excess of \$100 million in 2008. Some 420,000 tons of raw seaweed is processed annually by over 150 firms, including U.S. firms Cargill and FMC.

It Can Be Profitable

¶3. (SBU) The USG first supported seaweed farming in the Philippines in the 1960's, promoting the "Eucheuma" variety that dominates commercial carrageenan production today. It provided an income to artisanal and subsistence fishermen who were suffering from declining catches caused by overfishing, and destructive practices such as dynamite and cyanide fishing. By the mid-1990s, the Philippines was processing 95 percent of the world's carrageenan, with farmers in Tawi Tawi and Sulu provinces the principal suppliers of raw material to the industry. According to biologist and seaweed consultant Ronald Simbajon, a single hectare of seaweed can generate an annual income of up to 300,000 Philippine pesos (PhP) (over \$6,000), far above the Philippine average family income of 173,000 PhP (\$3,500).

Arms to Farms

¶4. (SBU) After the peace accord between the Philippine government and the Moro National Islamic Front (MNLFI) in 1996, USAID's Livelihood Enhancement and Peace Program (LEAP) took demobilized fighters out of the jungle and placed them into productive enterprises, including the seaweed business. By providing them with seedlings and other materials, as well as training and follow-up,

LEAP gave 8,000 former combatants a sustainable cash income and therefore, a stake in keeping the peace. Seaweed production now adds some \$30 million per year to the economy of the Sulu Archipelago in Mindanao, where terrorist and criminal groups continue to commit acts of violence. Although this program has helped to alleviate the region's deep poverty, the per capita regional domestic product of this region of Mindanao remains far below the national average.

Challenges from La Nina and Neighbors

15. (SBU) The Philippine seaweed industry has suffered from decreasing yields in recent years, largely due to rising sea temperatures caused by "La Nina". Higher water temperatures reduce plant productivity, and also make the plants susceptible to "ice-ice," a disease that leads to deterioration of plant cell walls. The near-tripling of world carrageenan prices in 2008 was due to the scarcity of tropical seaweed caused by these conditions. In addition to challenges presented by nature, the Philippine seaweed industry faces increasing competition from growers in Indonesia, and to a lesser extent, Kenya and Vietnam. Philippine carrageenan processing firms now buy dried seaweed from Indonesian farmers, since labor and fuel costs are lower, and Philippine farmers are unable to consistently produce the volumes the processors needed. Moving burlap sacks of dried seaweed from the Sulu Archipelago and other outlying areas hundreds of miles to Zamboanga City, Cebu City, and Manila -- the principal processing areas in the Philippines -- is a logistical nightmare that raises costs and degrades quality. In addition, the Philippine industry has developed up to five layers of middlemen between the producers and processors, reducing grower profits and incentives. Finally, seaweed prices have fluctuated greatly over the last year, ranging from 33 cents to 2 dollars per kilo for farmers, which can discourage producers who pre-sell their harvest at low prices or otherwise miss out on a rising market.

16. (SBU) To address the competitive and environmental challenges faced by seaweed farmers, USAID's Growth with Equity in Mindanao (GEM) and STRIVE projects are responding with a variety of approaches to improve quality, reduce shipping costs, and create

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industry standards that will help Filipino growers remain competitive. The construction of ten solar dryers in seaweed-producing villages will phase out beach and roof top drying, and make possible salt and sand-free seaweed of a consistent dryness, resulting in a higher-quality product that commands a premium price. Training farmers in marketing will help them retain profits that have been siphoned off by the middlemen/traders that now dominate the industry. Scientists are also working on methods to extract the sludge or sap from seaweed, which is an extremely rich organic fertilizer and currently lost during processing. And finally, USAID is teaching seaweed farmers to move up the value chain by raising abalone and other high value seafood products to increase incomes and diversify their income streams.

17. (U) Additional USAID initiatives may help reduce the impact of El Nino and other natural threats by harnessing biotechnology to provide better varieties of seaweed to farmers. Support for gene banks, as well as a land and seabank nursery at Mindanao State University-Tawi Tawi may result in improved seedling strains that are better adapted to changing climactic conditions, and that yield more and higher quality carrageenan. Also, research into causes and cures for "ice-ice" disease may not only provide a practical cure, but will build local biotechnology capacity that will enable future improvements of the genetic stock.

Comment

18. (SBU) For decades, USAID's seaweed and aquaculture projects have been a successful tool in combating rural poverty in the Philippines. In recent years, they have even helped to create conditions to support the peace process between the Philippine government and the Moro Islamic Liberation Front, a group of secessionist Muslim rebels in Mindanao. These projects provide income in areas that do not have cash economies, and help provide jobs to people who may otherwise turn to crime to earn money to feed their families. However, seaweed farmers, like most small agricultural producers in the Philippines, face challenges from the environment, and from competitors in an increasingly global market. USAID is applying many of the insights learned through its successful work in the tuna industry to help seaweed farmers remain competitive and diversify their income by establishing best

practices, and raising quality standards, marketing, and profitability. While seaweed will remain a viable industry in the Philippines for the foreseeable future, it is likely that seaweed farmers, including demobilized combatants, will continue to need outside support and new ideas to cement the economic and social gains achieved in the last decade.

Kenney